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C O N F I D E N T I A L SECTION 01 OF 02 LAGOS 002574

SIPDIS

E.O. 12958: DECL: 12/17/2013
TAGS: EPET EINV ELAB PGOV NI
SUBJECT: PRICE CAPS AND STRIKES CAUSE NIGERIA'S DOWNSTREAM DEREGULATION PLAN TO SPUTTER

REF: A. ABUJA 1700
¶B. LAGOS 2287
¶C. LAGOS 2422
¶D. LAGOS 2069
¶E. LAGOS 2147
¶F. LAGOS 2330
¶G. LAGOS 2363
¶H. LAGOS 2387

Classified By: J GREGOIRE FOR REASONS 1.5 (B) AND (D)

¶1. (C) SUMMARY: Barely 60 days after President Obasanjo declared Nigeria's downstream petroleum sector officially and completely deregulated, and 30 days after he replaced the head of the powerful national petroleum corporation, a GON regulatory agency shut down fuel stations of a US-based company and announced regional price caps on gasoline sales. A second pricing advisory authority more in line with the President's views is cautiously attempting to nullify the price caps, but marketers are wary of making any moves that will bring the wrath of regulators upon their gas stations. As organized labor threatens another mass action, this time over his privatization policies, the President is walking a fine line between placating unions and activists who seek relevance in a dissatisfied but largely unmotivated society, and his method of enacting government reform by executive fiat. END SUMMARY.

You Call this Deregulation?

¶2. (SBU) A deregulated downstream petroleum sector had been chugging along since President Obasanjo suddenly did away with price-caps and other vestiges of government control on October 1 (ref A), shuffled his top petroleum advisors in early November, and replaced the head of the Nigerian National Petroleum Corporation with someone seen as supportive of his deregulation policies (ref B). However, efforts by the Department of Petroleum Resources (DPR) to re-impose price caps on the sale of gasoline have undercut the President's tough rhetoric, and have forced fuel marketers to second-guess the environment in which they believed they were doing business.

¶3. (C) On December 8, the DPR announced publicly that it was imposing new price caps on gasoline sales in Nigeria. According to the DPR, Lagos retail prices are not to exceed 41 naira per liter (Lagos market prices had been hovering between 39.90 and 42 naira per liter), Abuja prices are capped at 42.50 naira, and a ceiling range of 45 to 48 naira per liter is set for Nigeria's northern region. (As we have seen since deregulation began, attention is being paid only to the price of gasoline; other fuels, such as diesel and kerosene, which are important industrial and consumer products throughout Nigeria, are not affected (ref C).) DPR's latest action followed a series of advertisements taken out in Nigerian daily newspapers announcing price caps by state. Meanwhile, according to John Pototsky, Managing Director of Mobil Producing Nigeria, the DPR closed some of the company's fuel stations and arrested the managers for charging what the agency felt were too high prices. Mobil stations were closed for two weeks in the large, commercially busy city of Ibadan, north of Lagos. The stations are now open, and Mobil is keeping its prices within the bounds set by DPR.

¶4. (C) Mobil's Pototsky told Econoff on December 13 that the council established by the President last summer to help usher in his deregulation scheme, the Petroleum Products Pricing Regulatory Authority (PPPRA), met with marketers several times in recent weeks and has assured them that, DPR actions and announcements notwithstanding, the downstream sector remains deregulated and retailers should feel free to charge market prices for their fuel products. Pototsky added that now that he has his stations open again, he is not going to be the first to cross the line in the sand drawn by DPR. Should other marketers follow Pototsky's lead, de facto price caps will remain in effect across Nigeria, regardless of the PPPRA's assurances that the caps have been lifted, because marketers fear DPR more than they trust PPPRA. (This is not the first time Mobil has been targeted by deregulation foes; during the run-up to a nationwide strike in October (ref D), Mobil stations were specifically targeted for pickets and threats of violence by labor unions and enforcers sent to

counter price increases (ref E).)

Obasanjo Throwing Labor a Bone?

¶5. (C) When asked where he thought the new Group Managing Director of NNPC, Funso Kupolokun, stood on the matter, Pototsky said Kupolokun will say and do whatever the President needs at any given moment. Pototsky said the President is probably trying to throw some sort of bone to the unions by allowing the DPR to publicly state it is imposing price caps, while having PPPRA attempt to quietly soothe fuel marketers' jitters by claiming the sector remains deregulated.

¶6. (SBU) Unions and other civil society organizations have tried to use fuel price increases as a means to mobilize Nigerians to stand up against what they feel is a presidency acting unilaterally and undemocratically (refs F, G). The activists lost steam after an aborted nationwide strike in October, but have been again calling for mass action beginning January 1, this time over disagreement with the way the President has handled the move to privatize the nation's chronically flagging oil refineries (ref H). The petroleum industry unions have stated they have no objection to refinery privatization in principle, but believe the government is rushing the process, and the unions want proof that legitimate buyers with technical expertise will assume control of the refineries.

¶7. (C) In what may be another attempt to assuage unions enough to keep them from striking on January 1, the President may meet with union leaders on December 17 to discuss the status of the privatization plan. Also, the Director General of the Bureau of Public Enterprises (BPE), the agency overseeing GON parastatal privatization, was recently quoted as saying only institutional investors, rather than individuals, will be allowed to purchase controlling shares of public enterprises, and that no refineries will be sold yet this year (contrary to the GON's previous goal of selling at least one of the four by the end of 2003). Mobil's Pototsky told Econoff he doubts the unions will actually begin a strike on New Year's Day, in part because so many Nigerians and expatriates living in Nigeria will be away from home for the holidays, which will reduce the number of available workers who might support a strike, and thus limit a strike's impact. Pototsky surmised that if the unions manage to gain enough momentum to pull off a mass action, it will be during the second or third week of January at the earliest.

¶8. (C) COMMENT: The DPR's moves to impose price caps, labor unions' calls for a strike in opposition to the GON's refinery privatization plan, nd fuel supply chain problems (septel), all pose challenges to the President's deregulation plan. If Obasanjo is allowing DPR to play on the sympathies of unions and civil society activists in hopes of buying him breathing room, his Administration will likely have to release at least some details of the letters of interest from potential partners wishing to buy control of the nation's refineries (due November 14). But, if the GON ultimately appears to be placating traditional cronies through the refineries' sales (ref H), the President may eventually find little wiggle room left in the face of mass action. Regardless of the likelihood of a strike, as Jules Harvey, Managing Director of Texaco, recently said at a business luncheon, "This is only the beginning of a very long and complicated process of deregulation." END COMMENT.
HINSON-JONES